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Amendment in Insurance Rules

Liberalisation of Foreign Direct Investment in Insurance Intermediaries

Background

On September 2, 2019, the Government of India (GOI) issued the Indian Insurance Companies (Foreign Investment) Amendment Rules, 2019 (Amendment Rules), which amends the India Insurance Companies (Foreign Investment) Rules, 2015 (Insurance Rules).

The key highlights of the Indian Insurance Companies (Foreign Investment) Amendment Rules, 2019 are summarised below.

Key highlights

Sector	Key Amendment
Insurance	<ul style="list-style-type: none">• For the purpose of insurance rules, intermediary or insurance intermediary shall have the same meaning as prescribed under the Insurance Regulatory Development Act, 1999 which is reproduced as under: "intermediary or insurance intermediary" includes insurance brokers, reinsurance brokers, insurance consultants, surveyors and loss assessors;• The Amendment Rules permits 100 percent FDI in "intermediaries" or "insurance intermediaries" under the automatic route subject to verification by the Insurance Regulatory Development Authority of India (IRDAI).• Foreign portfolio investment in intermediaries or insurance intermediaries shall be governed by provisions of Foreign Exchange Management Act, 1999 and the Securities Exchange Board of India (Foreign Portfolio Investors) Regulations.• The Amendment Rules provide that insurance intermediaries with majority shareholding of foreign investors shall be required to undertake the following:<ul style="list-style-type: none">– Intermediaries shall be incorporated as a limited company under the provisions of the Companies Act, 2013;– Bring in latest technological, managerial and other skills;– At least one amongst the Chairman of the Board of Directors or CEO or Principal Officer or MD of the insurance intermediary shall be a resident India citizen;– Composition of Board of Directors and key management persons shall be as specified by the concerned regulators;

- Payments by insurance intermediaries to the foreign group or promoter or subsidiary or interconnected or associate entities as permitted by IRDAI subject to compliance of relevant disclosures.
- Prior permission of IRDA for repatriation of dividend.
- Entities like banks, whose primary business is outside the scope of insurance area but are allowed to function as insurance intermediaries by the IRDAI, shall continue to be subject to foreign investment caps applicable in that sector. However, this shall be subject to condition that the revenues of such entities from non-insurance related business must remain above 50 percent of the total revenue in any financial year.
- Any increase in foreign investment is required to be made in accordance with the pricing guidelines prescribed by the Reserve Bank of India.

Impact

Enhancement of FDI limits from 49 percent to 100 percent in intermediaries and insurance intermediaries will attract international players, strengthen the sector with new technology and bring in global products, practices for Indian customers with competitive insurance market.

Conclusion

The amendments in the Indian Insurance Companies (Foreign Investment) Rules, 2015 are aimed at making the existing insurance industry more investor friendly, efficient and competitive.

The amendments to the FEMA Regulations for giving effect to the above is awaited.

Source: Ministry of Finance (Department of Financial Services), Notification dated 2nd September 2019



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